



**Director of
Central
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**Wednesday
18 November 1987**

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18 November 1987

25X1

Page Denied

Top Secret



Contents

Egypt: Arabs Restore Relations	1
China-South Korea: Economic Ties Growing	2



25X1

Notes

Iran-Iraq: Iranian Nuclear Plant Attacked	4
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25X1

Eastern Europe: Environmental Problems	6
Philippines: Communist Leader Captured	7



25X1

In Brief	8
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Special Analyses

Nicaragua: Prospects for Cease-Fire Talks	9
New Zealand: Peace Activism Renewed	11
USSR-West Germany: Raising the German Question	13
Turkey: Strong Economic Medicine To Follow Election	14



Top Secret



18 November 1987

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25X1

Top Secret



25X1

Egypt and the Arab States: Status of Relations

Never Broke Relations	Restored Before Amman Summit	Restored After Amman Summit (November 1987)	Imminent Restoration Likely	Unlikely To Restore Ties	Undecided
Oman Sudan Somalia	Jordan September 1984 Djibouti September 1986	UAE Iraq Saudi Arabia Kuwait North Yemen (YAR) Morocco Mauritania Bahrain	Qatar	Syria Libya South Yemen (PDRY) Algeria	Tunisia Lebanon



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18 November 1987

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Top Secret**EGYPT:****Arabs Restore Relations**

The decision by most of the moderate Arab states to restore formal diplomatic relations with Egypt probably will result in increased Arab aid to Cairo. [redacted]

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Among the moderates, only Qatar, Tunisia, and Lebanon have yet to restore relations, and Qatar plans to do so today after its weekly cabinet meeting, according to the US Embassy. Tunisia is likely to follow suit once its new leadership has consolidated power and can shift its focus from internal affairs. Lebanon probably will delay to avoid antagonizing Syrian President Assad. [redacted]

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Meanwhile, the Arab states of the Persian Gulf are preparing to channel additional financial aid to Egypt. Saudi Arabia and Kuwait have provided at least \$1.2 billion in cash assistance since the second half of last year. According to the US Embassy, the Kuwait Fund is planning further loans to Cairo, and Riyadh and Abu Dhabi are likely to increase their aid levels to elicit Egyptian assurances of security assistance in the Iran-Iraq war. An Egyptian military delegation is visiting Kuwait to discuss military cooperation. [redacted]

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Comment: The rush to restore formal relations with Egypt legitimizes the near-normal ties Cairo has enjoyed with most of the moderate Arab states for years. The restorations are, nonetheless, a major victory for Egypt, because Cairo was able to return to the Arab fold on its own terms, without undercutting its relations with Israel. [redacted]

For Egypt's President Mubarak, the Arab initiatives provide a welcome lift, producing a ground swell of support for him from across the political spectrum. The prospect of increased Arab aid also should strengthen his political position. [redacted]

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Cairo's response to Gulf requests for security assistance is likely to be minimal. The Egyptians have been frustrated by the apparent unwillingness of the Gulf states to define their defense needs adequately. They probably will try to avoid offering more than training advice and some materiel, at least in the near term. [redacted]

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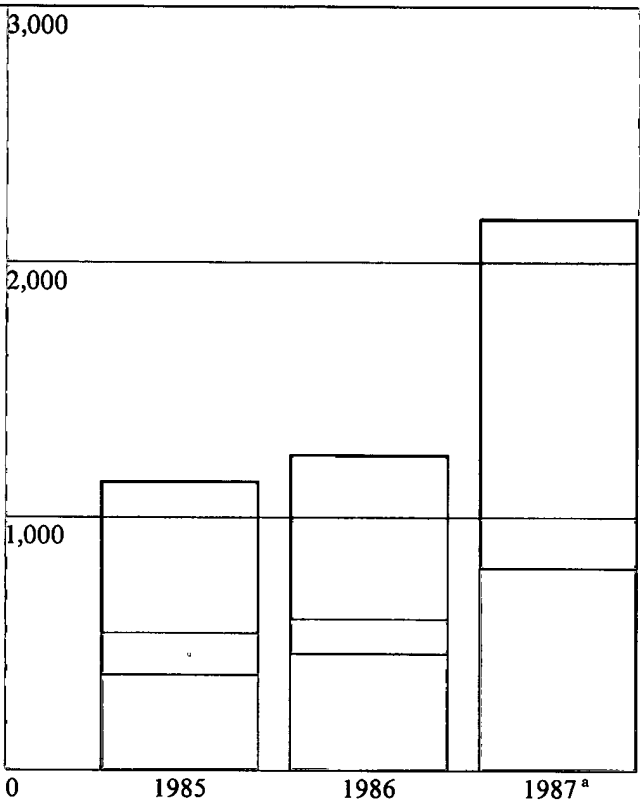
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China: Trade With South Korea

Million US \$

- Via Hong Kong
- Via Japan
- Direct



^aProjected.

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18 November 1987

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**CHINA-
SOUTH KOREA:****Economic Ties Growing**

Expanded economic and cultural contacts between China and South Korea indicate that bilateral relations are warming, but P'yongyang retains veto power over the establishment of diplomatic ties between Beijing and Seoul for now.

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Preliminary data indicate trade between China and South Korea will exceed \$2 billion this year—nearly double the level of 1985—making Seoul one of Beijing's top 10 trading partners. In July, China's State Economic Commission reportedly issued a directive to provincial governments encouraging joint ventures with South Korean firms. In China's special economic zones, joint-venture assembly plants for refrigerators and televisions reportedly are in full operation, and approval has been granted for at least two other cooperative efforts.

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Informal economic relations are expanding at a similar pace. Senior Chinese officials have toured South Korean electronics plants on several occasions in the past year, [redacted] The Chinese are looking to South Korea to supply machinery and electronics previously purchased from Japan, which has become a less attractive source as the yen has appreciated and as China has tried to reduce its trade deficit with Japan. Chinese exports of textiles and garments to South Korea have risen sharply in the past two years. [redacted]

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Seoul is clearly interested in expanding economic relations much further. President Chun increased efforts in recent months to persuade China to open reciprocal trade offices, [redacted]

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[redacted] South Korean ruling-party presidential candidate Roh Tae Woo last week publicly pegged campaign promises of west coast industrial development to trade with China. And, according to diplomatic reporting, Seoul has already explored the mechanism the US and Japan use to handle unofficial ties to Taiwan. [redacted]

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Comment: As China's economy opens, Beijing will be tempted increasingly by the prospective advantages of normal relations with Seoul. Diplomatic ties would facilitate the expansion of bilateral economic relations and complete Taipei's diplomatic isolation in East Asia. But Beijing sees formal ties developing only in tandem with normalized US relations with North Korea—a formula that P'yongyang insists is unacceptable. [redacted]

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IRAN-IRAQ: Iranian Nuclear Plant Attacked

Iranian news media claim Iraqi warplanes twice bombed the unfinished nuclear power plant at Bushehr yesterday, causing unspecified damage and killing 10 workers, including a West German engineer. [REDACTED]

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[REDACTED] Baghdad has claimed a successful raid on a chemical complex at Bushehr but did not mention the nuclear facilities. Last winter, Iraq publicly threatened to attack the Bushehr nuclear reactors if Iran proceeded with work to complete them. There has been no significant progress on the project since the late 1970s, but Iran has negotiated for the past two years with West German, Argentine, and Spanish firms to finish it. [REDACTED]

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Comment: The reports of repeated attacks suggest the nuclear facility was Iraq's intended target. Iraq has recently expressed increased concern about Iran's nuclear program and may hope that damaging Bushehr will slow Iranian progress in the nuclear field. There is no indication of an active nuclear weapons program in Iran.

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Tehran has already threatened to shell Iraqi border towns in retaliation for recent Iraqi bombings, but it is unlikely to attempt airstrikes on nuclear facilities in Iraq's interior. [REDACTED]

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18 November 1987

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Top Secret

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EASTERN EUROPE: Environmental Problems

Several East European countries are becoming more aware of the need to deal with severe environmental problems. [REDACTED]

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[REDACTED] East Germany recently launched an antipollution program—possibly costing as much as \$2 billion—and has sought more West German funding. Poland and the US recently signed a cooperation agreement on environmental protection, [REDACTED] and Hungary's chemical industry is examining additional ways to protect the environment. A recent CEMA conference on ocean research included discussion of long-term environmental protection. [REDACTED]

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Comment: Despite the growing awareness of environmental problems, the high cost of Western equipment and higher priority uses for scarce hard currency will delay action. Moreover, the small size of the countries demands a coordinated regional approach to pollution control. Poland has levels of atmospheric pollutants reportedly 10 times those in the US but can do little on its own to clean the air because 55 percent of its sulphur dioxide originates in Czechoslovakia, East Germany, and Austria. As pollution problems deteriorate, the regimes will face mounting public pressures to take corrective action. [REDACTED]

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PHILIPPINES: Communist Leader Captured

The arrest last weekend of Juanito Rivera, a founding and leading member of the Communist Party of the Philippines and its guerrilla New People's Army, will be a blow to insurgent morale but will probably have little effect on Communist operational capabilities, according to the US Embassy. Philippine military officials say Rivera was taken by surprise and without resistance after a tip from local informants. He has been moved to Manila where he will undergo medical treatment, be interrogated, and face charges of rebellion.

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Comment: Rivera's capture, like that of then party Chairman Rodolfo Salas last year, is not a major loss for the Communists; their ranks are full of experienced guerrillas, and no individual leader is vital. Despite claims by Philippine authorities that Rivera is a key commander and party tactician, he probably has played a waning role in the insurgency in recent years because of his poor health. His influence within the party may also have declined because of his close association with leaders who have lost influence during the party's continuing leadership struggle and strategy debate. It is not clear whether the arrest was a result of, or will have any effect on, the internecine rivalries evidently emerging between the party's Central Committee and the territorial commission for Central Luzon, the home area of Rivera and other longtime party hardliners.

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18 November 1987

Page Denied

Top Secret

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In Brief**South Asia**

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- **Bangladesh** opposition ending half day strikes, calling for 48-hour strike this weekend, according to US Embassy . . . indicates two major opposition parties have resolved differences over tactics . . . government likely to cope with ensuing violence.

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USSR

- Latvians to demonstrate in Riga today on Independence Day, human rights groups plan sympathy demonstration in Moscow . . . **Soviet** authorities have warned of harsh treatment . . . repression consistent with signs of shift to firmer limits on *glasnost*.

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Middle East

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- US Embassy reports five **Soviet** military advisers to visit **UAE** for first time in next few days . . . probably to provide training on SA-14 shoulder-fired missiles purchased in July . . . likely to leave when training finished.

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Africa

- **West German** Chancellor Kohl to visit **Mozambique, Cameroon, Kenya** this week . . . highest ranking foreign official to visit Mozambique since Chissano assumed presidency . . . requests for German economic aid likely to predominate at all stops.

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Europe

- **Italian** President Cossiga has asked outgoing Prime Minister to form government . . . Gorla optimistic about reconstructing five-party coalition . . . harsh public reaction to government collapse inclines parties to compromise on budget, other issues.

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Key Points of Sandinista Cease-Fire Proposal

- The cease-fire would be in force from 5 December to 5 January.
- Nicaraguan Government troops would suspend operations throughout the country after 20 November to allow rebel forces to move to designated cease-fire zones.
- Any armed groups outside cease-fire zones or violators inside could be fired on.
- A neutral agency could provide the rebels with nonmilitary supplies, but military support for the insurgents from any source would be prohibited.
- Civilian authorities and law officers would have the right to move through the zones.
- At the end of the cease-fire period, the rebels would lay down their arms in the presence of the International Verification Commission and other observer groups and accept amnesty. The rebels then could engage in political activities with full political rights.
- Rebels who accept amnesty could name delegates to the national dialogue between the government and the opposition.
- Insurgents wishing to leave Nicaragua would be assisted in relocating to other countries.
- After verification of a cutoff of external support for the rebels, the government would promulgate the amnesty law and lift the state of emergency as approved by the National Assembly.

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18 November 1987

25X1

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Special Analysis**NICARAGUA:****Prospects for Cease-Fire Talks**

The cease-fire negotiations between the Sandinistas and the insurgents are likely to bog down quickly in technicalities. Rebel efforts to include political issues in the talks and Managua's desire to involve the US in negotiations will hamper progress as well. The intermediary, Cardinal Obando y Bravo, generally favors the rebels, but his desire to appear neutral suggests that international pressure will be the key factor in gaining Sandinista concessions.

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President Ortega's 11-point cease-fire proposal, unveiled in Washington last Friday, calls for the orderly surrender of the insurgents and their reintegration into Nicaraguan society. Under the plan, the rebels would move into three cease-fire zones by 5 December, when the International Verification Commission will examine each country's compliance with the peace plan. By 5 January, the rebels would put down their arms, receive amnesty, and be free to join the national dialogue begun last month.

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Early Impasse

The insurgent Directorate has rejected the Sandinista proposal because it does not require the regime to implement broad democratic reforms before the rebels lay down their weapons. According to press reports, the rebels want a cease-fire agreement that would allow them to remain in their operating areas while they discuss political issues with the government. The guerrillas will soon forward their counterproposals to the Cardinal, according to the press.

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Managua remains unwilling to make major concessions. Sandinista leaders repeatedly point out that the peace accord requires a political dialogue only with unarmed opponents and argue that a cease-fire in place would give the rebels ipso facto control of territory—something Managua asserts they do not now have. The Sandinistas probably believe, moreover, that extensive international press coverage of their proposal has given them the diplomatic advantage.

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Senior Sandinista leaders have publicly rejected talks on political issues and are unlikely to reverse that position. According to the US Embassy, Interior Minister Borge told the party faithful last week, for example, that a political dialogue was impossible, because it would undercut the legitimacy of the revolution. The regime has continued to

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18 November 1987

Top Secret

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demand bilateral negotiations with the US, rejecting Washington's offer to join regional talks conditioned on progress toward a cease-fire. [REDACTED]

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Obando's Role

The intense round of talks Cardinal Obando held in Washington last week and his insistence on being a mediator—and not merely a messenger—reflect his intention to play an active role. According to the Embassy, Obando has said publicly he will urge both sides to be flexible, but his strong antiregime record suggests he favors the rebels. The Cardinal has told the Embassy that political issues must “eventually” come up in the talks. [REDACTED]

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Obando does not want to appear biased, however, and probably will not prod the regime hard to make concessions, especially in the early stages of the talks. US diplomatic reporting indicates Obando recently has grown less willing to confront the Sandinistas. As chairman of Nicaragua's National Reconciliation Commission, for example, he has refrained from condemning Sandinista foot-dragging on democratic reforms. [REDACTED]

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The weakness of the insurgents' political program may also hamstring the Cardinal's efforts to help them. [REDACTED] Obando has been critical of the rebels' failure to develop a strong political base in Nicaragua. The Embassy reports, moreover, that Obando views the internal opposition—a logical ally of the rebels—as too weak and disunited to press the regime for significant change. [REDACTED]

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Outlook

Both sides are likely to accept an initial stalemate. The Sandinistas probably are confident that the International Verification Commission—dominated by countries largely favoring Managua in the past—will eventually declare Nicaragua in compliance with the peace plan, which would increase pressure on the rebels to compromise. The insurgents may calculate that a breakdown in the cease-fire talks would expose the regime as negotiating in bad faith and thereby help them secure additional US aid. [REDACTED]

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In coming weeks, the positions of the Central American democracies will have a growing impact on the cease-fire talks. If El Salvador and Guatemala continue to reject talks on power sharing with their own insurgents, however, Managua probably will cite their refusal as justification for ignoring the Nicaraguan rebels' demands. [REDACTED]

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Special Analysis**NEW ZEALAND: Peace Activism Renewed**

A growing debate in Wellington over whether the Labor Party government should export New Zealand's controversial antinuclear policies is being aggravated by local peace activists who would distance New Zealand further from the US and Australian defense alliance. The government has no interest in straining relations with the US and Australia, but Prime Minister Lange faces powerful pressure from peace activists within his party, which earlier this month passed a nonbinding resolution to withdraw formally from the ANZUS alliance. [redacted]

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According to the US Embassy, local peace activists believe New Zealand plays a secret role in US regional defense planning. They apparently want to force Wellington to close the US Navy's research facilities at Blenheim and Tangimoana, as well as Harewood Airbase in Christchurch, which supports the US Navy's Antarctic "Operation Deepfreeze"—sites the activists now term "US nuclear support facilities." They also intend to distance New Zealand from Australia because of Canberra's defense links to Washington. [redacted]

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According to the Embassy, New Zealand's peace groups plan to draw on sensitive information obtained through the US Freedom of Information Act and New Zealand's Official Information Act to mount a political campaign over the next few months. The information-gathering effort is supported by a small but well-established network of peace activists in Australia, the US, and Europe and was recently given impetus by the commitment of the World Peace Council—a Soviet front organization—to improve cooperation among national peace groups. [redacted]

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The Lange government is sending mixed signals about its plans to export its controversial antinuclear policies. Although Foreign Minister Marshall and other top policymakers continue to assure Embassy officials that no export of these policies is being considered, New Zealand diplomats have recently made forceful presentations to South Pacific island leaders on the irrelevance of nuclear deterrence to the region. Documents recently released by the Ministry of Foreign Affairs also carry this theme. [redacted]

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In seeking a global alternative to the strategy of deterrence, moreover, Marshall has been attempting to forge stronger ties between signatories of the South Pacific and Latin American nuclear-free-zone treaties. During a recent visit to Mexico, he reportedly called for cooperation between members of both treaties. [redacted]

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Canberra's Reaction

According to the Embassy in Canberra, Australian officials believe that, over the longer term, Wellington's proselytizing will jeopardize the Pacific region's security, cause island leaders to reject US naval ship visits, and further encourage peace activists. These officials are increasingly concerned that New Zealand's activists may erode political and financial support for New Zealand's already weakened defense force, especially as the economy remains in the doldrums and the military continues to experience record resignations. [REDACTED]

Canberra reportedly has threatened to sever all military ties if Wellington does not make good on its lukewarm commitment to joint military purchases, including a deal to buy four of 12 frigates intended to improve and standardize the Navies of both countries. If Prime Minister Hawke's government follows through on its threat, it would politically undercut Lange, who maintains that defense ties to Australia adequately supplant links to the US. Hawke may push for a firmer commitment from Lange when he visits Wellington this week. [REDACTED]

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Gorbachev and the German Question

General Secretary Gorbachev and other senior Soviet officials reportedly have raised the future role of the two German states with various West German officials in the context of promoting the theme of a "common European house." The idea reportedly includes:

- Withdrawal of all foreign troops from East and West Germany.
- Substantial reductions in the conventional weapons of the remaining indigenous forces.
- The opening of a dialogue between East and West Germany and the USSR on Europe's future.

Gorbachev reportedly has specifically ruled out reunification but implied that "acknowledgment" could be made of inter-German financial and cultural ties.

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18 November 1987

Top Secret

25X1

Special Analysis**USSR-
WEST GERMANY:****Raising the German Question**

Moscow continues to tantalize West German officials with the prospect of an initiative on the German question but will need to balance potential gains—softening resistance to Soviet arms control and economic initiatives—against the anxiety raised in Eastern and Western Europe. [redacted]

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[redacted]

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Soviet officials, [redacted] have revived speculation that Moscow may be reevaluating its German policy. [redacted]

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[redacted] a broader effort to improve relations with Bonn by implying willingness to consider new approaches to the inter-German relationship. [redacted]

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[redacted] there has been a heavy emphasis on security issues in other Soviet-West German discussions on the German question, suggesting that Gorbachev wants leverage on Bonn to advance his arms control agenda. [redacted]

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Once an INF treaty is concluded, Moscow is likely to increase private contacts with West German officials in order to gain acceptance of its proposals on reductions in conventional and tactical nuclear forces. Soviet officials will not explicitly exclude political change between the two German states, but neither are they likely to propose an open examination of the issue because doing so might jeopardize efforts to convince West European governments that the USSR is a responsible European power. [redacted]

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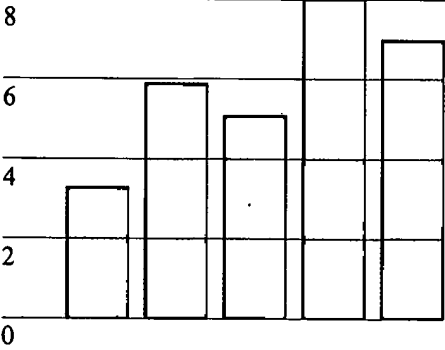
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Turkey: Selected Economic Indicators,
1983-87

Note scale change

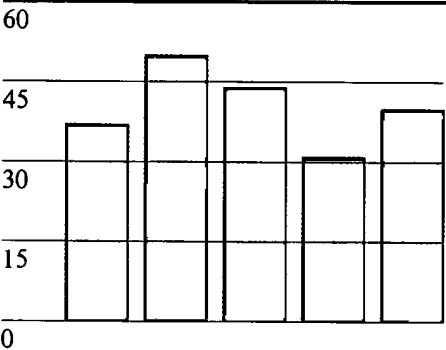
GNP Growth

Percent



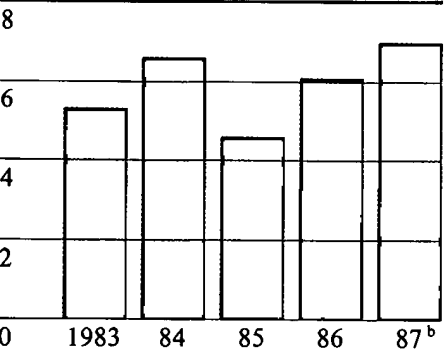
Inflation ^a

Percent



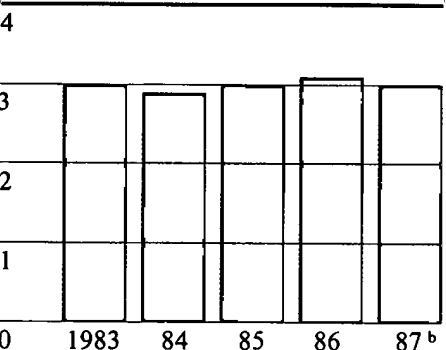
Government Deficit

Percent



Trade Deficit

Billion US \$



^a Consumer price index, December over December.

^b Estimated.

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18 November 1987

Top Secret

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Special Analysis**TURKEY:****Strong Economic Medicine To Follow Election**

After a year of politically motivated expansionary policies, Ankara plans strong action to stabilize the Turkish economy soon after the election on 29 November. []

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Prime Minister Ozal, who is widely credited with having restored prosperity during his first term, now faces a need to take unpopular steps to cool an overheated economy. In 1986 a large budget deficit helped push GNP growth to 8 percent. Unemployment declined slightly, but the current account deficit rose to a worrisome \$1.5 billion. Ozal, uncertain of his electoral prospects, further stimulated the economy by increasing spending, especially for farmers and other groups where his support appeared weakest. These steps will raise the budget deficit to perhaps 7 percent of GNP and push economic growth at least 2 percentage points above the 5-percent target. []

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Buoyant demand has driven the rate of inflation above 40 percent again and probably will keep the 1987 current account deficit near last year's high level. International creditors probably remain willing to cover another year of steep borrowing requirements, but they are worried by a foreign debt that now exceeds 50 percent of GNP and are tightening lending terms. []

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Ozal, who seems certain to win another term as Prime Minister, undoubtedly recognizes the seriousness of the situation; concern for the economy apparently was a major factor in his call for an early election. US Embassy officials who have spoken with Turkish economic planners expect that shortly after the election Ozal will tighten policy, including measures to pare public spending, raise government-administered prices, and improve tax collection. He probably also will rely on a more aggressive exchange rate policy to stimulate exports, while pushing ahead with plans to denationalize at least some of Turkey's numerous state enterprises. []

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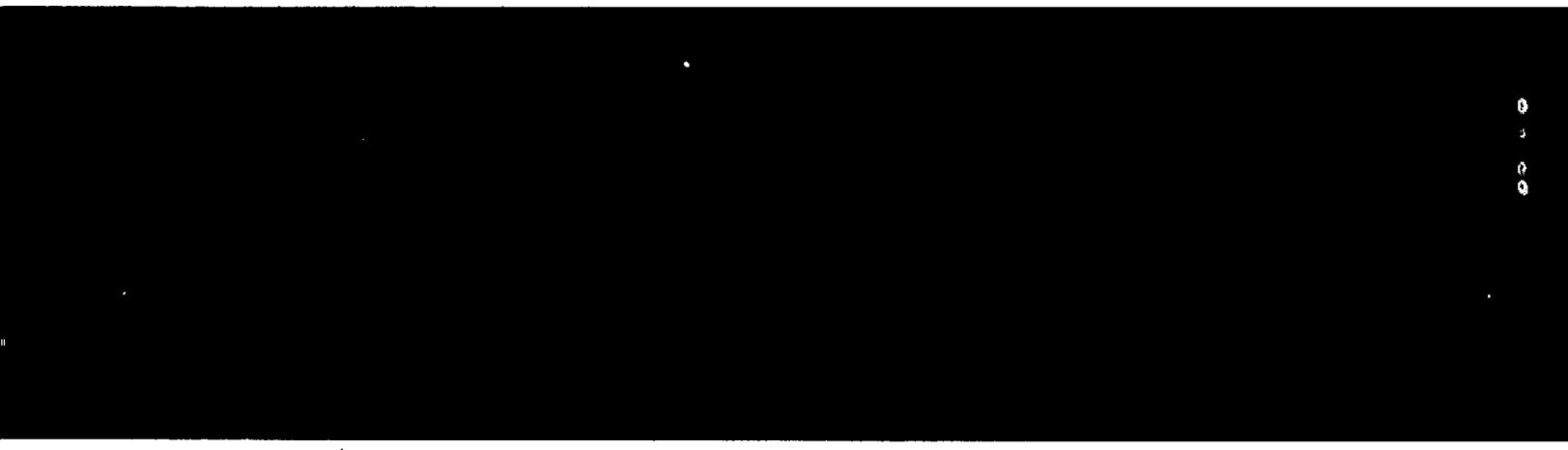
While Ozal remains committed to market-oriented policies, he may retreat in some areas where liberalization has not worked as expected. He may impose forced savings or recentralize government spending to rein in excesses by local authorities. He will continue to depend on the US for substantial levels of military assistance and will press Washington and the EC for better access for Turkey's textiles and steel products as well as for more private investment. []

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